

INFORMED BUDGETEER: A WRAP ON THE 105th 1st SESSION, BBA

WHAT SURPLUS?

- The historic Bipartisan Balanced Budget Agreement (BBA) reached on May 15, 1997, was followed shortly by the FY 1998 Budget Resolution which included spending, revenue, and deficit numbers embodied in the Agreement.
- In September 1997, following the enactment of statutory legislation to carry out the Agreement, the Congressional Budget Office released its reestimates of spending, revenue and deficit numbers reflecting the final implementing legislation and new summer economic projections.
- By comparing these two series, the “surplus” that is rumored to occur soon is put into perspective.
- Both at the time of the Agreement in May and the later reestimate in September, the budget was projected to reach balance in 2002, but not before -- a scant \$1.3 billion in surplus in the May estimate, and a \$31.9 billion surplus in the September estimate.
- Cumulatively, however, over the five year period -- 1998 to 2002 -- the May estimates expected deficits to total \$315.2 billion. With surpluses after 2002, the May estimate expected cumulative deficits to total \$228.5 billion over the ten year period -- 1998 to 2007. (See Table below.)

Comparison of Deficit Estimates in May 1997 Budget Agreement versus September 1997 Updated (Dollars in Billions)		
	1998-2002	1998-2007
BBA Assumption May 1997:		
Spending	9,043.5	19,829.3
Revenues	8,728.3	19,600.8
Deficits (-)	-315.2	-228.5
September 1997 updated Post BBA:		
Spending	8,985.0	19,836.0
Revenues	8,823.5	19,909.6
Deficits (-)/Surplus (+)	-161.4	+73.7
Difference in Estimates May to Sept.	-153.7	-302.1
Accounted for by:		
Legislation	+33.1	+243.6
Economics & Technical	-186.8	-545.7

- After the final legislation implementing the Agreement was signed into law, along with changes in economic forecasts between May and September, cumulative deficits over the five year period -- 1998 to 2002 -- totaled \$161.4 billion, nearly \$154 billion less than what was estimated in May for the same time period.
- With the September estimates increasing the surplus after 2002, September cumulative deficit estimates over the ten-year period actually turned into a surplus of nearly \$74 billion. Therefore, compared to May estimates, over the ten-year period deficits were reduced nearly \$302 billion.
- It is these lower cumulative deficit estimates between May and September -- \$154 billion over five-years and \$302 billion over ten years -- that have given rise to the recent proposals to “spend the surplus.”
- However, nothing in the budget world is as easy as it seems. When analyzed more carefully, the five-year, \$154 billion reduction in estimated deficits from May to September has nothing to do with Congressional action. Congress actually increased the deficit slightly over this time period by a net of \$33.1 billion by failing to legislate \$37 billion in spending savings, offset by reducing taxes \$4.5 billion less than was assumed at the time of the BBA. Therefore, all and more of the reduction in estimates is accounted for not by policy changes, but by improved economic and technical estimates -- \$186.8 billion.
- Further, over the ten-year period, Congress failed to achieve nearly \$244 billion in legislative savings assumed in the May Agreement --

primarily by lower Medicare and Medicaid savings, higher children’s health spending, and no extension of discretionary spending caps beyond 2002. However, this increase in the deficits from a loss in legislative savings was more than offset by nearly \$546 billion in improved ten-year economic forecasts between May and September.

- Of the nearly \$546 billion reduction in deficits over ten years from improved economics and technicals -- \$210 billion of this was accounted for by an increase in social security revenues due to the continuing economic expansion.
- Conclusion: the numbers will change again in January, when another set of economic forecasts and technical reestimates will be prepared by both OMB and CBO. But these comparisons should humble those rushing to spend a “surplus” that is not directly created by their own doings, and that is instead created by economic factors that have been known to go the “other way!”

DID CONGRESS LIVE UP TO THE BBA?

- When all was said and done, Congress lived up to its end of the BBA. For the 13 “protected domestic discretionary programs,” which the budget agreement assumed would be funded at the President’s request level, Congress was on, or close to, the mark with few departures.
- The funding departures were largely for items whose details Congress had not specifically agreed to (Pell grants), for a new program that was advance appropriated and made subject to authorization (Opportunities for Out of School Youth), and where anticipated reform was not enacted (Superfund).
- Adjusting for these three items, Congress exceeded by \$54 million the overall \$34 billion assumed in the BBA for these 13 protected programs, with the modest departures occurring in a few specific programs.
- Congress matched the BBA assumptions for Bilingual and Immigrant Education, for BIA Tribal Priority Allocations, and for the Job Corps.
- Congress exceeded the BBA assumptions for the Technology Literacy Challenge Fund, for Head Start, for National Park System operations and land acquisition, and for the Violent Crime Reduction Trust Fund.
- Partially offsetting these increases, Congress provided slightly less than the BBA assumed for the National Institutes of Standards and Technology and the Community Development Financial Institutions Fund.
- ▶ **Pell Grants:** The commitment made in the BBA for Pell grants was more complicated than simply a funding level. While the BBA assumed the President’s request for Pell grants, that amount was more than needed to fund the only policy change promised in the BBA -- a \$300 increase in the maxium Pell Grant Award. The BBA was silent on other policy changes, such as independent students, that were contemplated in the President’s request.
- ▶ While the Congress provided \$290 million less than assumed in the BBA for Pell grants overall, the Labor-HHS Appropriations Act provided an additional \$286 million above the base program level, which can be used to increase the income protection allowance (IPA) for independent and dependent students in the needs analysis formula applied in all need-based financial assistance programs. The conference report makes clear however, that the maximum Pell grant of \$3,000 is to be funded first, before IPAs can be increased.
- The BBA protected funding at the President’s request for training and Employment Services, including Job Corps, at the Department of Labor. While the Job Corps appropriation matched the President’s request, enacted funding for the rest of these protected training programs fell \$307 million short of the BBA. The difference results mainly from Congress delaying \$250 million from

1998 to advance 1999 funding for a new program called Opportunities for Out of School Youth, provided that such program is authorized as a part of job training consolidation legislation enacted by July 1, 1998. The bill also provides \$25 million for pilots and demonstrations for this activity in 1998. The President had sought all funds for 1998.

► **Superfund:** While enacted funding for Superfund may not be at the levels provided in the President’s budget request, Congress has abided by the budget agreement in funding this program. The problem is not due to insufficient appropriations, but the inability of the Congress and the Administration to resolve disputes over legislation reauthorizing the program.

► The BBA provides that Superfund would be funded at the President’s requested level “if policies can be worked out”. The President requested \$2.094 billion in discretionary budget authority for the Superfund program. The President also proposed \$200 million in new direct spending for the program, for a total of \$2.294 billion in 1998.

► The VA-HUD Appropriations Act provides \$2.15 billion in budget authority for the Superfund program -- \$56 million more than the President requested. The Act provides \$1.5 billion in regular program funds, delays the obligation of \$100 million of this budget authority until October 1, 1998, and provides that \$650 million of the overall appropriation will only be made available if legislation reauthorizing Superfund is enacted by May 15, 1998.

► Section 204 of the budget resolution includes a \$200 million allowance for additional direct spending for the Superfund program. Once Superfund reform legislation is reported, the Budget Committee will make this additional \$200 million available for a new direct spending program for the Superfund program.

• While Congress reduced by \$0.1 billion EPA’s operating programs, relative to the BBA, Congress also restored funding reductions proposed by the President for the State and Tribal Assistance Grants, (which was not a protected program), providing \$3.2 billion compared to the requested \$2.8 billion.

BBA: Protected Domestic Discretionary Programs (BA, \$ in Billions)			
Protected Item	BBA	Final Action	Final +/- BBA
Dept of Commerce			
Natl Inst of Standards & Tech.	0.693	0.678	-0.015
Dept of Education			
Technology Literacy Fund	0.510	0.541	0.031
Pell Grants	7.635	7.345	-0.290
Bilingual & Immigrant Ed	0.354	0.354	0
Child Literacy Initiatives	0.260	0.210	-0.050
Dept of HHS			
Head Start	4.305	4.355	0.050
Dept of Interior			
National Park System	1.220	1.234	0.014
Land Acquisition	0.867	0.969	0.102
Everglades Restoration	0.140	0.135	-0.005
Tribal Priority Allocations	0.757	0.757	0
Dept of Labor			
Training & Employment Service	4.049	3.742	-0.307
Job Corps	1.246	1.246	0
Dept of the Treasury			
Community Development	0.125	0.080	-0.045
EPA			
EPA Operating Program	2.739	2.632	-0.107
Superfund	2.042 ^A	1.453	-0.589
Violent Crime			
VCRTF	5.416	5.500	0.084
COPS	1.405	1.400	0.005
TOTAL	33.763	32.631	-1.132

^AAssumed Reform. SOURCE: Senate Budget Committee

• For all the suspense at the end of the session over appropriations measures, funding levels for these 13 programs were not the issue. The Administration and the Congress came to mutual agreement on these funding levels, and other legislative matters held up the completion of the FY 1998 appropriations bills

★BUDGET FACTOID★

Discretionary Spending 1997 and 1998 (\$ in Billions)				
	1997 ^A	1998 ^B	Increase	
			\$	%
Budget Authority	509.8	526.6	+16.8	+3.3
Outlays	550.5	555.6	+5.1	+0.9

^ACBO August baseline estimates, includes emergencies. ^BCBO estimates of 1998 appropriations, including emergencies.

DID CONGRESS LIVE UP TO THE BBA?-PART 2

• Besides the 13 specific programs, the BBA also stated that “discretionary priority spending will be protected” at certain amounts for five specific budget functions--International Affairs, Natural Resources, Transportation, Education, and Administration of Justice.

• The table below shows how the BBA promised to spend \$126.5 billion on programs in five budget functions. Given the fact that responsibility for living up to the agreement was dispersed over 11 of the 13 appropriation subcommittees, which do not appropriate funds by function, it is somewhat remarkable that enacted funding levels (BA) for these functions in total fell only \$0.3 billion short of the amounts promised in the BBA-- a shortfall of only 0.2 percent.

• Apparently, the President and the Congress, since the BBA was struck in May, decided to alter the mix by appropriating \$0.6 billion more than had been agreed to for Natural Resources, and by appropriating \$0.9 billion less than had been agreed to for the other four functions.

Non defense discretionary levels in BBA vs. Appropriations (\$ in Billions)			
	BBA	Enacted	Difference
International Affairs:			
Budget Authority	19.0	19.0	-0.0
Outlays	19.2	19.0	-0.2
Natural Resources:			
Budget Authority	22.8	23.4	0.6
Outlays	21.4	21.7	0.3
Transportation:			
Budget Authority	13.6	13.5	-0.0
Outlays	38.3	38.5	0.2
Education:			
Budget Authority	46.7	46.0	-0.7
Outlays	43.2	42.9	-0.3
Justice:			
Budget Authority	24.4	24.3	-0.1
Outlays	22.2	21.7	-0.5
TOTAL			
Budget Authority	126.5	126.2	-0.3
Outlays	144.3	143.8	-0.5

CALENDAR

November 26: Office of Management Budget's tentative date for the release of the Final Sequester Report, FY 1998 is November 26th.

December 8: Open staff breifing, DOE’s role in President’s Climate Change Plan, Bob San Martin, Director, Office of Science Initiative. Dirksen 608: 10:00 am.

January 28: **The CBO Economic and Budget Outlook, for FY 1999-2003.**

February 2: **The President’s FY 1999 Budget.**